

**WATER AUTHORITY
OF GREAT NECK NORTH
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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WATER AUTHORITY OF GREAT NECK NORTH

Management's Discussion and Analysis

For Year Ended December 31, 2011 (Unaudited)

The Water Authority of Great Neck North (the "Authority") was established to provide potable water to the northern area of Great Neck peninsula which encompasses the Villages of Great Neck, Great Neck Estates, Kensington, Kings Point, Saddle Rock and portions of Great Neck Plaza, and Thomaston. The service area also includes portions of the unincorporated areas of the Town of North Hempstead within the service territory.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of its most recent year end by \$26,040,250 (net assets). Of this amount \$12,267,008 (unrestricted net assets) may be used to meet the Authority's ongoing operations.
- The change in net assets of the Water Authority for the most current year was an increase of \$1,395,676 compared with an increase of \$5,042,607 in the prior year. This decrease is primarily the result of a legal settlement received by the Authority in 2010 for the amount of \$3,000,000 and decreased water sales.
- Water sales in the current year decreased by \$654,734 from \$8,570,517 for the 2010 year to \$7,915,783 for the 2011 year. Water usage decreased significantly in 2011 as a result of higher than average precipitation during the summer of 2011 compared to 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Authority include the Statement of Net Assets, the Statement of Revenue, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, and related notes to the financial statements. The Statement of Net Assets, or balance sheet, provides information about the nature and amounts of investments and resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference between the two reported as net assets.

The Statement of Revenue, Expenses and Changes in Net Assets, or income statement, shows how the Authority's net assets changed during the year. It accounts for all the year's revenues and expenses, measures the financial results of the Authority's operations for the year and can be used to determine how the Authority has funded its costs.

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments and net changes in cash resulting from operations, financing and investing activities.

The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Authority's accounting methods and policies.

Management provides the following discussion and analysis (MD&A) of the Authority's financial position and activities. This overview is provided for the years ended December 31, 2011 and 2010. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and the notes to those financial statements, all of which follow this narrative on the subsequent pages.

WATER AUTHORITY OF GREAT NECK NORTH

Management's Discussion and Analysis

For Year Ended December 31, 2011 (Unaudited)

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net assets are an indication of the Authority's financial strength. Our analysis focuses on the net assets and changes in net assets of the Authority as a whole.

Condensed Statement of Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 12,999,430	\$ 12,456,743	\$ 7,644,193
Restricted assets	16,497,574	19,415,438	21,508,901
Other assets	1,208,422	816,441	417,002
Capital assets	31,500,666	28,935,675	27,473,220
Total assets	<u>62,206,092</u>	<u>61,624,297</u>	<u>57,043,316</u>
Liabilities:			
Current liabilities	1,568,272	1,469,326	1,401,334
Non-current liabilities	34,597,570	35,510,397	36,040,015
Total liabilities	<u>36,165,842</u>	<u>36,979,723</u>	<u>37,441,349</u>
Net assets:			
Invested in capital assets, net of related debt	9,362,843	8,603,807	8,164,366
Restricted net assets	4,410,399	4,367,393	4,322,927
Unrestricted net assets	12,267,008	11,673,374	7,114,674
Total net assets	<u>\$ 26,040,250</u>	<u>\$ 24,644,574</u>	<u>\$ 19,601,967</u>

The Authority's total assets at December 31, 2011 were \$62,206,092, an increase of \$581,795 over the 2010 year. Total liabilities at December 31, 2011 were \$36,165,842, a decrease of \$813,881 from the 2010 year. Accordingly, total net assets of the Authority at December 31, 2011 were \$26,040,250, increase of \$1,395,676 over the 2010 year. Of the Authority's net assets at December 31, 2011, \$9,362,843 were invested in capital assets, net of related debt, \$4,410,399 were restricted for debt service and capital and \$12,267,008 was unrestricted.

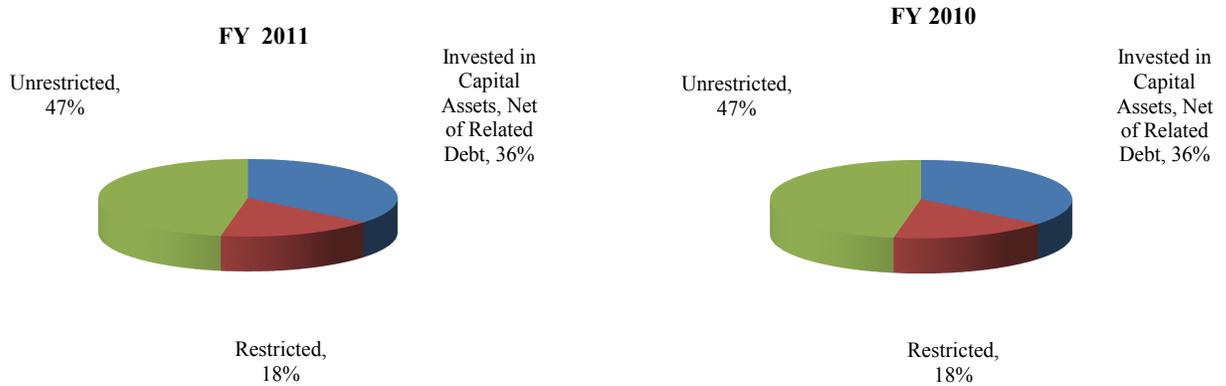
The Authority's total assets at December 31, 2010, were \$61,624,297, an increase of \$4,580,981 over the 2009 year. Total liabilities at December 31, 2010 were \$36,979,723, a decrease of \$461,626 from the 2009 year. Accordingly, total net assets of the Authority at December 31, 2010 were \$24,644,574, an increase of \$5,042,607 over the 2009 year. Of the Authority's net assets at December 31, 2010, \$8,603,807 were invested in capital assets, net of related debt, \$4,367,393 were restricted for debt service and capital and \$11,673,374 was unrestricted.

WATER AUTHORITY OF GREAT NECK NORTH

Management's Discussion and Analysis
 For Year Ended December 31, 2011 (Unaudited)

As of December 31, 2011 and 2010, the Authority is able to report a positive balance in all three categories of net assets.

Net assets for the Authority, shown as a proportion of total net assets, are as follows for December 31,



Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2011	2010	2009
Water service revenues	\$ 7,915,783	\$ 8,570,518	\$ 7,289,795
Operating expenses	6,086,817	5,924,415	6,082,683
Operating income	1,828,966	2,646,103	1,207,112
Non-operating revenues	673,848	593,585	621,237
Costs to be recovered from future revenues	391,981	399,439	417,002
Non-operating expenses	(1,578,519)	(1,618,119)	(1,656,519)
Income before capital contributions and extraordinary item	1,316,276	2,021,007	588,832
Capital contributions	79,400	21,600	127,342
Extraordinary item	-	3,000,000	58,456
Change in net assets	<u>\$ 1,395,676</u>	<u>\$ 5,042,607</u>	<u>\$ 774,630</u>

Water service revenues decreased \$654,735 or 7.6% during the current year from \$8,570,518 in 2010 to \$7,915,783 in 2011. Water usage decreased significantly in 2011 as a result of higher than normal precipitation during the summer of 2011 compared to 2010. Fluctuations in water sales revenue were consistent with the water usage due to levels of precipitation.

WATER AUTHORITY OF GREAT NECK NORTH

Management's Discussion and Analysis
For Year Ended December 31, 2011 (Unaudited)

Condensed Statement of Revenues, Expenses and Changes in Net Assets (Continued)

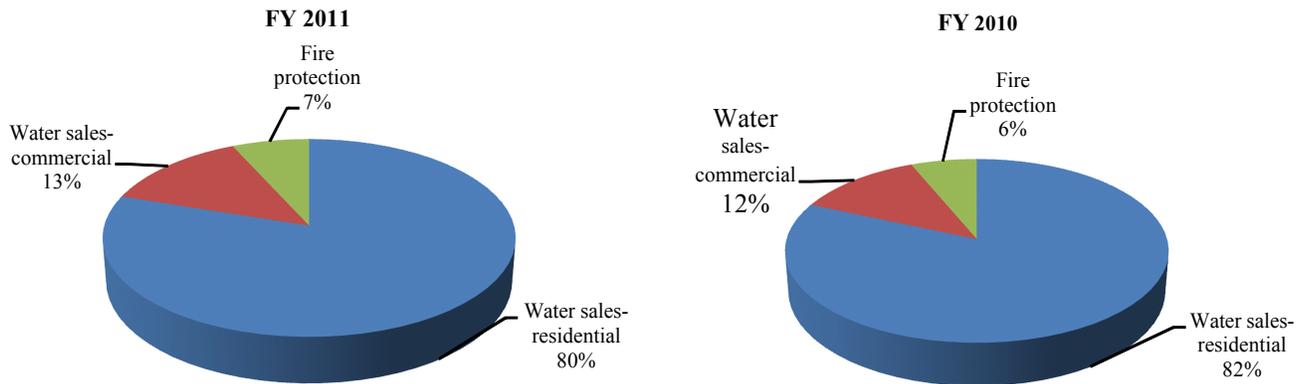
Water service revenues increased \$1,280,723 or 18% for 2010 from \$7,289,795 in 2009 to \$8,570,518 for 2010. This increase is consistent with higher than normal temperatures and significantly less rainfall during peak periods of water usage during 2010.

During the year ended December 31, 2010, the Authority received \$3,000,000 in settlement with the responsible party for remediation of a groundwater plume. This settlement is being used to offset some of the costs to design and build two (2) packed tower aeration systems to cover the wells already being treated by the existing granular activated system, as well as the construction of the Authority's Well #14.

Operating expenses increased \$162,402 or 2.7% during the current year from \$5,924,415 in 2010 to \$6,086,817 in 2011. Operating expenses for 2011 include \$391,981 to account for GASB Statement No. 45.

Operating expenses decreased \$158,268 or 3% during the prior year from \$6,082,683 in 2009 to \$5,924,415 in 2010 and included \$399,439 to account for GASB Statement No. 45, which is explained on page 6.

Revenue Percentages by Major Category
For the Fiscal Years Ended December 31, 2011 and 2010



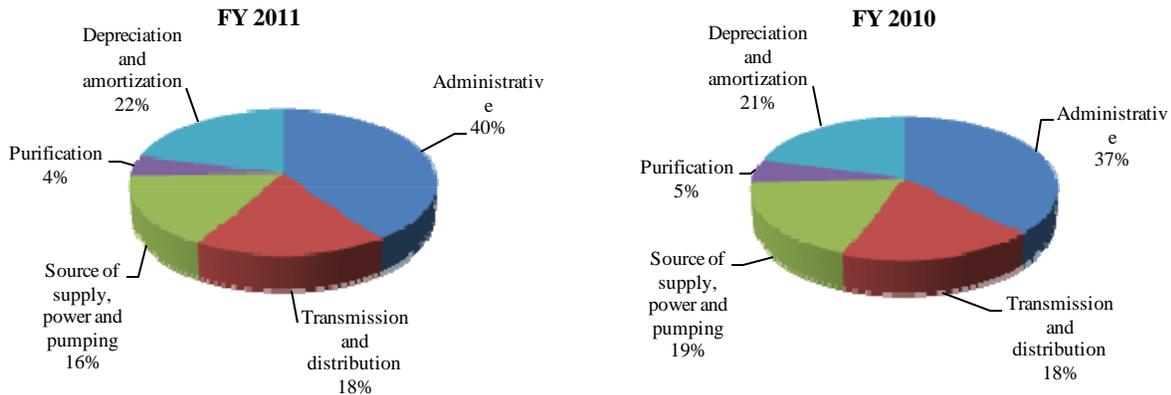
WATER AUTHORITY OF GREAT NECK NORTH

Management's Discussion and Analysis

For Year Ended December 31, 2011 (Unaudited)

Condensed Statement of Revenues, Expenses and Changes in Net Assets (Continued)

Expense Percentages by Type
For the Fiscal Years Ended December 31, 2011 and 2010



Costs to be recovered from future revenues (\$391,981) represent the difference between the Authority’s annual required contributions for postemployment benefits other than pensions (“OPEB”) as required by GASB Statement No. 45 and the amount paid out for such benefits by the Authority during fiscal 2011. In accordance with the accounting authoritative guidance ASC 950, the Authority has deferred the excess of the annual required contributions over the amount paid during the fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority’s rate model.

BUDGET HIGHLIGHTS

	Actual	Budget	Variance Positive (Negative)
Operating Revenues:			
Water service	\$ 7,376,729	\$ 7,900,000	\$ (523,271)
Fire protection	539,054	540,000	(946)
Total Operating Revenues	7,915,783	8,440,000	(524,217)
Operating Expenses:			
Administrative	2,441,343	2,179,562	(261,781)
Transmission and distribution	1,107,734	1,154,000	46,266
Source of supply, power and pumping	989,359	1,060,000	70,641
Purification	245,049	300,000	54,951
Depreciation and amortization	1,303,332	1,378,515	75,183
Total Operating Expenses	6,086,817	6,072,077	(14,740)
Operating Income	\$ 1,828,966	\$ 2,367,923	\$ (538,957)

WATER AUTHORITY OF GREAT NECK NORTH

Management's Discussion and Analysis

For Year Ended December 31, 2011 (Unaudited)

Water service revenues are projected based on average historical usage. This year’s operating revenues were approximately 7% under budget. Actual operating expenses overall were approximately 1% higher than the budget. Administrative expenses include the cost of postemployment benefits other than pensions in the amount of \$391,981.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees’ years of service. Under GASB Statement No.45, based on the actuarial valuation, an annual required contribution (“ARC”) is determined by the Authority. The ARC is the sum of (a) the normal cost of the year (present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. To the extent that the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB Statement No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for unfunded accrued liability. The financial statements at December 31, 2011 include a liability in the amount of \$1,208,422 that represents the Authority’s unfunded liability.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Authority owns and maintains over 117 miles of various types and sizes of water mains, pumping stations, tanks, water treatment plants, four storage facilities, two emergency interconnections with Manhasset-Lakeville Water District, land and other facilities required in the treatment and distribution of portable water to its customers.

Capital assets consisted of the following for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>	Increase (Decrease)
Land and land rights	\$ 639,639	\$ 639,639	\$ -
Construction in progress	4,747,481	4,280,606	466,875
Building	1,695,410	1,695,410	-
Pumping and purification	15,337,551	15,129,884	207,667
Transmission and distribution	20,488,800	17,755,510	2,733,290
Transportation equipment	734,028	635,218	98,810
Other equipment	896,064	831,357	64,707
Organization and acquisition	725,646	725,646	-
Total capital asset	<u>45,264,619</u>	<u>41,693,270</u>	3,571,349
Accumulated depreciation and amortization	<u>13,763,953</u>	<u>12,757,595</u>	1,006,358
Total net capital assets	<u>\$ 31,500,666</u>	<u>\$ 28,935,675</u>	<u>\$ 2,564,991</u>

WATER AUTHORITY OF GREAT NECK NORTH

Management's Discussion and Analysis

For Year Ended December 31, 2011 (Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION

On June 5, 2008, the Authority issued \$38,850,000 of Series 2008 Water System Revenue Bonds. The Series 2008 Bonds were issued in part to refinance the Authority's 1993 Series A Water System Revenue Bonds outstanding of \$18,700,000 and the balance to finance the costs of improvements to the Authority's water system. As of December 31, 2011, the Authority has water revenue bonds outstanding totaling \$34,224,998.

The Authority is committed to the long-term maintenance of the water system and currently has plans for capital improvements to the system on a regular basis. The Authority currently has a five year capital budget with expenditures estimated as follows:

2012	\$	10,400,000
2013	\$	3,500,000
2014	\$	2,150,000
2015	\$	2,575,000
2016	\$	2,625,000

CREDIT RATINGS

The Authority is the recipient of a very favorable AA+ credit rating assigned to its revenue bonds from Standard & Poors.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN AND RATES

The Authority derives a significant portion of its operating revenues from metered water sales. Water revenues are dependent on the amount of rainfall particularly during the summer months. As a result, these revenues are unpredictable and very volatile. Water revenues for the Authority can vary significantly from a rainy year to a dry year. Water revenues are budgeted on the conservative side, which is in anticipation of a rainy year. However, actual water revenues can still fall far short of estimates. The Authority also believes that such adverse weather conditions can easily recur consequently over two or more years running. Water rates are set annually in concurrence with the adoption of its annual operating budget. The Authority is required to set rates and fees sufficient to cover all its operating and capital expenses as well as meeting debt service covenant requirements.

REQUEST FOR INFORMATION

This financial report is designed to provide our readers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Water Authority's Superintendent at 50 Watermill Lane, Great Neck, New York, 11021.



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SATTY, LEVINE & CIACCO, CPAS, P.C.
Certified Public Accountants & Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Water Authority of Great Neck North
Great Neck, New York

We have audited the accompanying statements of net assets of the Water Authority of Great Neck North (the "Authority") (a public benefit corporation of the State of New York) as of December 31, 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended December 31, 2011. These financial statements are the responsibility of the Water Authority of Great Neck North's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Water Authority of Great Neck North as of December 31, 2010 were audited by other auditors whose report dated March 16, 2011 expressed an unqualified opinion on the statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2011, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 and the Schedule of Funding Progress for the Retiree Health Plan on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Satty, Levine & Ciacco CPAs PC

Satty, Levine & Ciacco, CPAs, P.C.
Jericho, New York
March 15, 2012

WATER AUTHORITY OF GREAT NECK NORTH
STATEMENT OF NET ASSETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,106,320	\$ 9,127,738
Investments	1,699,774	1,698,975
Accounts receivable	360,613	743,421
Accrued unbilled revenue	565,908	635,578
Interest and other receivables	1,465	760
Prepaid expenses and other assets	107,552	91,601
Inventory of materials and supplies	157,798	158,670
TOTAL CURRENT ASSETS	<u>12,999,430</u>	<u>12,456,743</u>
RESTRICTED ASSETS:		
Cash construction fund	12,087,175	15,048,045
Bond fund and bond reserve fund-held by trustee	4,410,399	4,367,393
TOTAL RESTRICTED ASSETS	<u>16,497,574</u>	<u>19,415,438</u>
OTHER ASSETS:		
Costs to be recovered form future revenues	<u>1,208,422</u>	<u>816,441</u>
CAPITAL ASSETS:		
Nondepreciable	5,387,120	4,920,245
Depreciable, net	26,113,546	24,015,430
TOTAL CAPITAL ASSETS	<u>31,500,666</u>	<u>28,935,675</u>
TOTAL ASSETS	<u>\$ 62,206,092</u>	<u>\$ 61,624,297</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of water revenue bonds, less current portion unamortized discounts	\$ 1,194,915	\$ 1,154,915
Accounts payable and accrued liabilities	100,188	56,771
Retainage payable	218,169	202,640
Deferred revenue	55,000	55,000
TOTAL CURRENT LIABILITIES	<u>1,568,272</u>	<u>1,469,326</u>
NONCURRENT LIABILITIES:		
Water revenue bonds, net of unamortized bond premium, issuance costs and deferred amount on refunding	33,030,083	34,224,998
Customer deposits payable	359,065	468,958
Postemployment benefits other than pensions	1,208,422	816,441
TOTAL NONCURRENT LIABILITIES	<u>34,597,570</u>	<u>35,510,397</u>
TOTAL LIABILITIES	<u>36,165,842</u>	<u>36,979,723</u>
NET ASSETS		
Investment in capital assets, net of related debt	9,362,843	8,603,807
Restricted net assets	4,410,399	4,367,393
Unrestricted net assets	12,267,008	11,673,374
TOTAL NET ASSETS	<u>26,040,250</u>	<u>24,644,574</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 62,206,092</u>	<u>\$ 61,624,297</u>

See independent auditors' report and notes to the financial statements.

WATER AUTHORITY OF GREAT NECK NORTH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Water sales-residential and apartments	\$ 6,336,083	\$ 6,989,087
Water sales-commercial and municipal	1,040,646	1,042,137
Fire protection	539,054	539,293
TOTAL OPERATING REVENUES	<u>7,915,783</u>	<u>8,570,517</u>
OPERATING EXPENSES:		
Administrative	2,441,343	2,202,580
Transmission and distribution	1,107,734	1,096,493
Source of supply, power and pumping	989,359	1,102,204
Purification	245,049	289,727
Depreciation and amortization	1,303,332	1,233,411
TOTAL OPERATING EXPENSES	<u>6,086,817</u>	<u>5,924,415</u>
OPERATING INCOME	<u>1,828,966</u>	<u>2,646,102</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and other	300,721	223,066
Rental of real property	373,127	369,772
Interest on water system revenue bonds	(1,578,519)	(1,618,119)
Costs to be recovered from future revenues	391,981	399,439
Gain on disposal of capital assets	-	747
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(512,690)</u>	<u>(625,095)</u>
INCOME BEFORE CAPITAL GRANTS	1,316,276	2,021,007
CAPITAL CONTRIBUTIONS		
Developers and customers	79,400	21,600
EXTRAORDINARY ITEM		
Litigation settlement	-	3,000,000
Change in net assets	1,395,676	5,042,607
Total net assets-beginning	<u>24,644,574</u>	<u>19,601,967</u>
Total net assets-ending	<u>\$ 26,040,250</u>	<u>\$ 24,644,574</u>

See independent auditors' report and notes to the financial statements.

**WATER AUTHORITY OF GREAT NECK NORTH
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 8,258,368	\$ 8,393,277
Payments to suppliers	(2,515,272)	(2,477,251)
Payments to employees	(1,832,365)	(1,804,564)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,910,731</u>	<u>4,111,462</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	(3,589,810)	(2,417,843)
Contributions for capital assets	79,400	21,600
Payments on revenue bonds	(1,320,000)	(1,280,000)
Interest paid	(1,691,950)	(1,731,550)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,522,360)</u>	<u>(5,407,793)</u>
CASH FLOWS FROM INVESTING AND OTHER NON-OPERATING ACTIVITIES		
(Increase) decrease in investments-unrestricted	(799)	911
Decrease in construction fund-restricted	2,960,870	2,137,929
(Increase) in restricted assets held by Trustee	(43,006)	(44,466)
Rental income	373,127	369,772
Interest and dividends received	300,019	308,845
Proceeds from sale of capital assets	-	1,239
Extraordinary item-litigation settlement	-	3,000,000
NET CASH PROVIDED BY INVESTING ACTIVITIES AND OTHER NON-OPERATING ACTIVITIES	<u>3,590,211</u>	<u>5,774,230</u>
CHANGE IN CASH AND CASH EQUIVALENTS	978,582	4,477,899
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	<u>9,127,738</u>	<u>4,649,839</u>
END OF YEAR	<u>\$ 10,106,320</u>	<u>\$ 9,127,738</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,828,966	\$ 2,646,102
Adjustments to reconcile change in net assets to net from operating activities:		
Depreciation and amortization	1,303,332	1,233,411
(Increase) decrease in operating assets:		
Accounts receivable	382,808	(374,226)
Accrued unbilled revenue	69,670	(28,872)
Prepaid expense and other assets	(15,951)	(18,758)
Inventory of materials and supplies	872	516
Costs to be recovered from future revenues	391,981	399,439
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	43,417	(33,737)
Retainage payable	15,529	61,729
Customer deposits	(109,893)	225,858
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,910,731</u>	<u>\$ 4,111,462</u>

See independent auditors' report and notes to the financial statements.

WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Water Authority of Great Neck North (the “Authority”) is a public benefit corporation created in 1985 under Public Authorities Law of the State of New York. The Authority was created to acquire, construct, finance, operate and maintain the supply and distribution system for the benefit of the residents within the boundaries of the Water Authority of Great Neck North. The Authority commenced operations in 1989 and currently provides water service to approximately 32,400 customers.

The Authority is governed by a board of directors consisting of ten members. The chief executive officers of the Incorporated Villages of Great Neck, Great Neck Estates, Great Neck Plaza, Kensington, Saddle Rock, Thomaston and certain unincorporated areas within the Town of North Hempstead each appoint one member who serves for a period of two years.

B. BASIS OF ACCOUNTING

The accompanying financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles. The Authority is engaged only in business-type activities as defined in GASB Statement No. 34. Private Sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation.

C. BASIS OF PRESENTATION

GASB Statement No. 34 requires resources be classified for accounting and financial reporting purposes into the following three net asset categories:

- a) Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of invested capital assets, net of related debt. Rather, the portion of the debt is included in the same asset component as the unspent proceeds.
- b) Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation

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WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF PRESENTATION (Continued)

Unrestricted net assets –All other net assets that do not meet the definition of “restricted net assets” or “invested in capital assets, net of related debt.”

D. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Funds held by the Authority are administered in accordance with the Authority’s investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller’s investment guidelines for public authorities. Certain investments and cash and cash equivalents have been designated by the Authority’s Board of Directors to be used for specific purposes, including rate stabilization, debt service, and capital expenditures. Investments’ carrying values are reported at fair market value.

Investments with original maturities of 90 days or less when purchased are considered cash equivalents. Investments with original maturities of longer than 90 days when purchased are reported as investments and are carried at fair value, except for certificates of deposit. Certificates of deposit are valued at cost, which approximates fair value.

E. ACCRUED UNBILLED REVENUES

Accrued unbilled revenues represent revenue earned in the current year but not billed to customers until future dates, usually three months, and based on billings occurring in the first two months of the succeeding year using historical trends.

F. MATERIALS AND SUPPLIES

Materials and supplies are stated at cost, which approximates lower of cost or market on a first in first out basis. The Authority maintains a perpetual inventory system.

G. CAPITAL ASSETS (PROPERTY AND EQUIPMENT)

Capital assets are carried at cost. Improvements, renewals and significant repairs that extend the life of the asset are capitalized, other repairs and maintenance costs are expensed as incurred. The capitalized cost of additions to property and equipment includes construction costs such as labor and materials. Depreciation is provided on the straight-line basis using the various lives for each asset which range between 5 and 50 years. Organization and acquisition costs are amortized on the straight-line basis over 30 years. When assets are retired or otherwise disposed of, the related assets and accumulated depreciation is written off and any unrelated gains or losses are recorded.

WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. BOND FUND AND BOND FUND RESERVE FUNDS HELD BY TRUSTEE

The Authority's bond resolution authorizing the Series 2008 bond issue establishes a Bond Fund and Bond Reserve Fund to be maintained by a trustee. The debt service is to be paid out of the Bond Fund. As additional security of the bonds, the Authority must maintain an amount equal to the maximum amount of principal and interest coming due during the current or any future years in the Bond Reserve Fund. Amounts held in the Bond Fund are recorded as restricted assets in the accompanying statement of net assets.

I. CASH CONSTRUCTION FUND

The Authority's bond resolution authorizing the Series 2008 bond issue establishes a Construction Fund in which the proceeds of the bond are deposited. Amounts paid from the Construction Fund are restricted to the cost of improvements or the replacement of the water system specified in the bond resolution. Amounts held in the Cash Construction Fund are recorded as restricted assets in the accompanying statement of net assets.

J. RENEWAL AND REPLACEMENT FUND

In accordance with the Authority's bond resolution, monies in the Renewal and Replacement Fund may be applied to the cost of improvements or betterment to, or the replacement of the water system. Deposits to the Renewal and Replacement Fund are set forth in the annual budget. Amounts held in the Renewal and Replacement Fund are recorded as investments in the accompanying statement of net assets.

K. DEBT ISSUANCE COSTS, BOND DISCOUNT AND PREMIUMS, AND OTHER BOND-RELATED COSTS

Debt issuance costs, bond discount or premium are amortized over the life of the related bond issues. Deferred bond refunding costs are amortized to expense over the shorter of the life of the refunding bonds or the refunded bonds. Debt issuance costs, bond discount or premiums and other related bond issuance costs are reported as deferred charges, the balance of which was \$1,065,004 and \$1,230,087 as of December 31, 2011 and 2010, in the accompanying statements of net assets.

L. DEFERRED REVENUE

Deferred revenues/unearned revenues are those where asset recognition criteria have been met, but which revenue recognition criteria have not been met. Such amounts have been deemed to be "measurable" but not "available" pursuant to GAAP.

WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. REVENUE RECOGNITION

Revenues from water sales are recognized at the time of service delivery based on actual or estimated water meter readings. Billings for water service are generally rendered on a quarterly basis except for certain consumers, which are billed monthly since they generally use large volumes of water. The Authority has the power to independently set rates and charges, which are sufficient to meet its obligations, and is not subject to the regulation of any department or commission, including the State Public Service Commission. The Authority has elected to record bad-debts using the direct write-off method. GAAP requires the allowance method to be used to recognize bad debts, however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

N. OPERATING AND NON-OPERATING REVENUES AND EXPENSES

Operating revenue consists of water revenue and other related revenue. The Authority defined non-operating revenue as interest earnings on investments, realized gains or losses on sales of investments, miscellaneous rental income and any other revenue not defined as operating revenue. Non-operating expenditures are defined as interest expense on long-term debt, gain/losses on disposals of capital assets and any other expenditure not defined as operating.

O. COSTS TO BE RECOVERED FROM FUTURE REVENUES

The Authority's cost recovery rate model used to establish rates, fees and charges includes an amount for postemployment benefits other than pensions that are expected to be paid out during the fiscal year, but not for the amount of the annual required contribution as calculates under GASB Statement No. 45, Accounting and Financial reporting by Employers for Postemployment Benefits Other than Pensions. In accordance with FASB ASC 980, Regulated Operations (previously FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation), the Authority has deferred the excess of current annual required contribution over the amount paid during the 2010 - 2011 fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The deferred amount for the year ended December 31, 2011 and 2010 was determined as follows:

	<u>2011</u>	<u>2010</u>
<u>Costs excluded from rate model:</u>		
Annual OPEB costs recoverable from rate payers	\$ 465,738	\$ 449,760
<u>Costs included in the rate model:</u>		
Amount of current year payments	<u>(73,757)</u>	<u>(50,321)</u>
	391,981	399,439
Balance - beginning of year	<u>816,441</u>	<u>417,002</u>
Balance - end of year	<u>\$ 1,208,422</u>	<u>\$ 816,441</u>

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WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. INCOME TAXES

As a public benefit corporation, the Authority is exempt from federal and state income taxes, as well as state and local property and sales tax.

Q. INSURANCE

The Authority purchases insurance against liability for most risk including, but not limited to, property damage and personal injury. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability not covered by insurance has been incurred and the amount of loss can be reasonably estimated.

R. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of capital assets; allowances for and inventory, the valuation of financial instruments other than cash, accrued water services and fire protection revenues, accrued employee welfare costs, workers' compensation and postemployment benefits, and other uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

S. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 15, 2012, which is the date the financial statements were available to be issued and determined that there were no additional items requiring recognition or disclosure in these financial statements.

T. RECLASSIFICATIONS

Certain reclassifications have been made to the prior year statements to conform to the current year presentation. These changes have no effect on the previously reported change in net assets.

U. NEW PRONOUNCEMENTS

In December 2009, GASB issued Statement No. 57 (GASB No. 57), *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB No. 57 addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. The statement amends previous GASB statements on OPEB plans, and will improve the consistency of reporting for OPEB plans. This statement is effective for the Authority beginning in fiscal 2012. The Authority does not believe this statement will have a material impact on its financial statements.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. NEW PRONOUNCEMENTS(Continued)

In December 2010, GASB issued Statement No. 62 (GASB No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. The statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, which eliminates the election for business-type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with GASB pronouncements. This statement is effective for the Authority beginning in fiscal 2012. The Authority does not believe this statement will have a material impact on its financial statements.

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The guidelines established by the Authority permit the investment of funds held by the Authority and funds held in trust for the Authority to be invested in accordance with New York State Public Authority Law. Investments must be in the form of obligations of the State of New York, or in general obligations of its political subdivisions, obligations of the United States or its agencies whose principal and interest payments are fully guaranteed by the federal government, and in collateralized time deposits or certificates of deposits issued by a commercial bank or trust company, which is a member of the Federal Deposit Insurance Corporation (FDIC).

The Authority's investment policy limits its deposits and investment activity to time deposits, demand deposits, certificates of deposit issued by banks or trust companies and direct obligations of the United States of America.

It is the Authority's policy to require its demand deposits, money market deposits and certificates of deposit, not controlled by the Trustee to be fully collateralized by federal deposit insurance or other collateral held in the name of the Authority or to be secured by a letter of credit. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States of America and its agencies.

WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Cash, cash equivalents and investments not controlled by the Trustee are recorded as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 10,106,319	\$ 9,127,738
Renewal and replacement fund	1,299,774	1,298,975
Rate Stabilization Fund	400,000	400,000
Construction fund-restricted	12,087,175	15,048,045
	<u>\$ 23,893,268</u>	<u>\$ 25,874,758</u>
Demand and time deposits banks	\$ 22,193,847	\$ 24,175,932
Investments-United States Treasury Bill and Notes	1,699,421	1,698,826
	<u>\$ 23,893,268</u>	<u>\$ 25,874,758</u>

Custodial Credit Risk-Deposits/Investments- Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover the deposits, or recover collateral securities that are in possession of an outside counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

At December 31, 2011 and 2010 the Authority's bank deposit balances were \$22,193,847 and \$24,378,459 of which \$500,000 each respective year, was covered by the Federal Deposit Insurance Corporation and the remainder was covered by collateral held by the Authority's agent, a third-party financial institution in the Authority's name.

At December 31, 2011 and 2010 the Authority also had restricted deposits held by the Trustee in the Bond Reserve Fund in the amount of \$4,410,399 and \$4,367,393, respectively.

Credit Risk- State law limits investments to those authorized by State statutes. The Authority has a written investment policy that is in conformity with those statutes.

Concentration of Credit Risk-Credit risk can arise as a result of failure to adequately diversify investments. Concentration risk disclosure is required for positions of five percent or more in securities of a single issuer

Interest Rate Risk- Interest-rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if the interest rate substantially increases, thereby affording potential purchasers more favorable rates on essentially equivalent securities. Accordingly, such investments would have to be held to maturity to avoid potential loss.

As of December 31, 2011 and 2010, the Authority did not have any investments subject to credit risk, interest rate risk or concentration of credit risk.

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WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 3. CAPITAL ASSETS (PROPERTY AND EQUIPMENT)

A summary of capital asset transactions for the year ended December 31, 2011 and 2010 is as follows:

	Balance 1/1/2011	Additions	Disposals/ Transfers	Balance 12/31/2011
Capital assets not being depreciated:				
Land and land rights	\$ 639,639	\$ -	\$ -	\$ 639,639
Construction in progress	4,280,606	3,589,810	(3,122,935)	4,747,481
Total nondepreciable assets	4,920,245	3,589,810	(3,122,935)	5,387,120
Depreciable capital assets:				
Building	1,695,410	-	-	1,695,410
Pumping and purification	15,129,884	207,667	-	15,337,551
Transmission and distribution	17,755,510	2,733,290	-	20,488,800
Transportation equipment	635,218	117,271	(18,461)	734,028
Other equipment	831,357	64,707	-	896,064
Organization and acquisition	725,646	-	-	725,646
Total depreciable assets	36,773,025	3,122,935	(18,461)	39,877,499
Less: Accumulated depreciation and amortization:	\$(12,757,595)	\$ (1,024,819)	\$ 18,461	(13,763,953)
Total net depreciable capital assets				26,113,546
Total net capital assets at December 31, 2011				\$ 31,500,666

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NOTE 3. CAPTIAL ASSETS - PROPERTY AND EQUIPMENT (CONTINUED)

	<u>Balance 1/1/2010</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 12/31/2010</u>
Capital assets not being depreciated:				
Land and land rights	\$ 639,639	\$ -	\$ -	\$ 639,639
Construction in progress	2,442,599	2,417,843	(579,836)	4,280,606
Total nondepreciable assets	<u>3,082,238</u>	<u>2,417,843</u>	<u>(579,836)</u>	<u>4,920,245</u>
Depreciable capital assets:				
Building	1,695,410	-	-	1,695,410
Pumping and purification	15,002,727	127,157	-	15,129,884
Transmission and distribution	17,403,632	351,878	-	17,755,510
Transportation equipment	595,121	68,680	(28,583)	635,218
Other equipment	799,736	32,121	(500)	831,357
Organization and acquisition	725,646	-	-	725,646
Total depreciable assets	<u>36,222,272</u>	<u>579,836</u>	<u>(29,083)</u>	<u>36,773,025</u>
Less: Accumulated depreciation and amortization:	<u>\$(11,831,290)</u>	<u>\$ (954,896)</u>	<u>\$ 28,591</u>	<u>(12,757,595)</u>
Total net depreciable capital assets				<u>24,015,430</u>
Total net capital assets at December 31, 2010				<u>\$ 28,935,675</u>

Depreciation and amortization of capital assets totaled \$1,024,818 and \$954,897 for the years ended December 31, 2011 and 2010, respectively.

NOTE 4. WATER SYSTEM REVENUE BONDS

On June 5, 2008, the Authority issued \$38,850,000 of 2008 Series Water Revenue Bonds. The bonds which bear interest at rates ranging from 3.0% to 5.0% have a final maturity date of January 1, 2038. Proceeds of the new debt were used in part to retire existing 1993 Series A bonds in the amount of \$18,700,000. The balance of the proceeds will be used for several major capital projects as specified in the bond resolution. The bond resolution required that various funds be established including a Bond Fund, Bond Reserve Fund, Renewal and Replacement Fund and a Construction Fund. The Bond and Bond Reserve Fund are held by the trustee and are required to maintain on deposit amounts sufficient to cover the annual debt service.

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WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
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NOTE 4. WATER SYSTEM REVENUE BONDS (CONTINUED)

The Authority covenants in its Bond Resolution that it will establish water rates so that each year net revenues shall equal the greater of (1) the sum of its aggregate debt service on all bonds outstanding plus the deposits required to fund the Bond Fund and Renewal and Replacement Fund as stated in the Bond Resolution or (2) 110% of the sum of the aggregate debt service. Net revenues are defined as revenues for any period less operating expenses used to maintain reasonable and necessary working capital and operating reserves for such period. As of December 31, 2011, the Authority is in compliance with its financial covenants.

	<u>Balance</u> <u>1/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Due within</u> <u>one year</u>	<u>Long-term</u> <u>portion</u>
2008 Series Bonds	\$ 36,610,000	\$ -	\$ (1,320,000)	\$ 35,290,000	\$ 1,360,000	\$ 33,930,000
Premium on issuance of debt	1,397,792	-	(113,430)	1,284,362	113,430	1,170,932
Deferred loss on refunding, unamortized bond discount and deferred issuance costs	<u>(2,627,879)</u>	<u>-</u>	<u>278,515</u>	<u>(2,349,364)</u>	<u>(278,515)</u>	<u>(2,070,849)</u>
Total Water Revenue Bonds	<u>\$ 35,379,913</u>	<u>\$ -</u>	<u>\$ (1,154,915)</u>	<u>\$ 34,224,998</u>	<u>\$ 1,194,915</u>	<u>\$ 33,030,083</u>
	<u>Balance</u> <u>1/1/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2010</u>	<u>Due within</u> <u>one year</u>	<u>Long-term</u> <u>portion</u>
2008 Series Bonds	\$ 37,890,000	\$ -	\$ (1,280,000)	\$ 36,610,000	\$ 1,320,000	\$ 35,290,000
Premium on issuance of debt	1,511,222	-	(113,430)	1,397,792	113,430	1,284,362
Deferred loss on refunding, unamortized bond discount and deferred issuance costs	<u>(2,906,394)</u>	<u>-</u>	<u>278,515</u>	<u>(2,627,879)</u>	<u>(278,515)</u>	<u>(2,349,364)</u>
Total Water Revenue Bonds	<u>\$ 36,494,828</u>	<u>\$ -</u>	<u>\$ (1,114,915)</u>	<u>\$ 35,379,913</u>	<u>\$ 1,154,915</u>	<u>\$ 34,224,998</u>

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NOTE 4. WATER SYSTEM REVENUE BONDS (CONTINUED)

Future principal and interest payments to maturity are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,360,000	\$ 1,647,750	\$ 3,007,750
2013	1,400,000	1,591,750	2,991,750
2014	1,460,000	1,518,750	2,978,750
2015	1,530,000	1,442,250	2,972,250
2016	1,540,000	1,143,350	2,683,350
2017-2021	7,315,000	4,827,150	12,142,150
2022-2026	4,100,000	4,524,375	8,624,375
2027-2031	5,180,000	3,394,250	8,574,250
2032-2036	6,600,000	1,893,250	8,493,250
2037-2038	4,805,000	248,000	5,053,000
	<u>\$ 35,290,000</u>	<u>\$ 22,230,875</u>	<u>\$ 57,520,875</u>

In prior years, the Authority defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Subsequently the deposited funds were used to redeem the 1993 Series A Bond in full. This refunding resulted in a deferred loss on the early extinguishment of debt of \$2,967,300. The deferred loss is being amortized over the remaining life of the 1993 Series A bonds.

NOTE 5. PENSION PLAN

PLAN DESCRIPTION

The Authority participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan collectively known as NYSLRS. This is a cost-sharing multiple-employer retirement system. The NYSLRS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSLRS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSLRS and for the custody and control of its fund. The NYSLRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

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NOTE 5. PLAN DESCRIPTION (CONTINUED)

FUNDING POLICY

The NYSLRS is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for their first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) who generally contribute 3 percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSLRS fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

2011	\$	258,822
2010	\$	177,293
2009	\$	148,984

NOTE 6. COMPENSATED ABSENCES

Employees of the Authority earn vacation leave each month at a schedule rate in accordance with their years of service and sick leave at a rate of one day per month. Unused vacation days for all employees cannot be carried forward to next year.

NOTE 7. POSTEMPLOYMENT HEALTH CARE BENEFITS

The Authority sponsors a single employer health care plan that provides postemployment medical benefits for eligible retirees and their spouses through the New York State Health Insurance Plan. Substantially all the Authority's employees may become eligible for these benefits if they reach normal retirement age and 15 years of service while working for the Authority. The Authority does not issue a publicly available financial report for the plan.

Benefit provisions for the plan are established and amended through the Authority's Board of Directors and there is no statutory requirement for the Authority to continue this plan for future Authority employees. For eligible employees retiring before December 31, 2012, the Authority shall pay fifty percent (50%) of the individual coverage plus \$2,000 per annum (prorated for each monthly premium payment) and thirty-five percent (35%) of the additional cost of family coverage, plus an additional five percent (5%) of the cost for family coverage and \$4,000 per annum (prorated for each monthly premium payment) toward the medical plan.

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NOTE 7. POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

The Authority accounts for its OPEB obligations, in accordance with GASB Statement No. 45 *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*. The Statement establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

In accordance with this standard, the Authority's annual OPEB cost for the plan is calculated based on the annual required contribution of the employer (ARC). The Authority has elected to calculate ARC and related information using the alternative measurement method permitted in GASB Statement No. 45 for employers with fewer than one hundred total plan members. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Authority's annual OPEB cost of the year, the amount contributed to the plans, and changes in the authority's net OPEB obligation for the years ended December 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 433,080	\$ 433,080
Interest on net OPEB obligation	32,658	16,680
Annual OPEB cost (expense)	465,738	449,760
Contributions made	(73,757)	(50,321)
Increase in net OPEB obligation	391,981	399,439
Net OPEB obligation, beginning of year	816,441	417,002
Net OPEB obligation, end of year	<u>\$ 1,208,422</u>	<u>\$ 816,441</u>

As of December 31, 2011 and 2010 the actuarial accrued liability of benefits was \$3,742,696, all of which was unfunded. For December 31, 2011 and 2010 the covered payroll (annual payroll of active employees covered by the plan) was \$1,832,365 and \$1,804,564 respectively, and the ratio of unfunded actuarial liability to the covered payroll was 2.074 and 1.896 respectively.

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WATER AUTHORITY OF GREAT NECK NORTH
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NOTE 7. POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

The actuarial valuation date is January 1, 2009. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplemental information provides multiyear information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the 2009 actuarial valuation, the alternate measurement method was used. The actuarial assumptions included 4% discount rate and an annual health care cost trend rate of 10.5% and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over 30 years using the level dollar amortization method. The remaining amortization period at December 31, 2011 was 27 years.

NOTE 8. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Authority leases space for telecommunication transmission equipment to various telecommunication companies. Under the lease agreements, the initial lease term is 10 years, with the option to extend for 5 years. The Authority currently has six lease agreements. Annual lease income from these agreements for the next five years is expected to be:

<u>Years</u>	<u>Income</u>
2012	\$ 336,468
2013	286,979
2014	277,483
2015	228,018
2016	73,792
Thereafter	50,417
	<u>\$ 1,253,156</u>

See independent auditors' report

WATER AUTHORITY OF GREAT NECK NORTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONTINGENCIES

The Authority has various insurance policies with third party carriers related to property protection, casualty and statutory and non-statutory employee protection.

The Authority is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have material adverse affect on the financial condition of the Authority.

NOTE 9. EXTRAORDINARY ITEM-PROCEEDS FROM SETTLEMENT

During the year ended December 31, 2010, the Authority received \$3,000,000 in settlement with the responsible party for remediation of a groundwater plume. This settlement is being used to offset some of the costs to design and build two (2) packed tower aeration systems to cover the wells already being treated by the existing granular activated system, in addition to the construction of the Authority's Well #14. Payment was received on November 23, 2010 and was recognized as an extraordinary item for the year ended December 31, 2010.

**WATER AUTHORITY OF GREAT NECK NORTH
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
FOR THE YEARS ENDED DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	\$ -	\$ 3,742,696	\$ 3,742,696	0%	\$ 1,832,365	204.25%

See independent auditors' report and notes to the financial statements.



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SATTY, LEVINE & CIACCO, CPAS, P.C.
Certified Public Accountants & Business Advisors

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Water Authority of Great Neck North
Great Neck, New York

We have audited the financial statements of the Water Authority of Great Neck North, New York as of December 31, 2011 and for the year then ended, as listed in the table of contents and have issued our report thereon date March 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Water Authority of Great Neck North's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Authority of Great Neck North's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Authority of Great Neck North's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Authority of Great Neck North's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Satty, Levine & Ciacco, CPAs, P.C.
Jericho, New York
March 15, 2012